Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

Message Text

CONFIDENTIAL

PAGE 01 KINSHA 03003 01 OF 02 011456Z
ACTION AF-08

INFO OCT-01 EUR-12 ISO-00 CIAE-00 DODE-00 PM-04 H-01
INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02
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TO SECSTATE WASHDC PRIORITY 2721
INFO AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY LUSAKA
AMEMBASSY PARIS
AMEMBASSY PRETORIA

C O N F I D E N T I A L SECTION 1 OF 2 KINSHASA 3003

E.O. 11652: GDS 12/31/83
TAGS: EGEN, MOPS, PFOR, PFIN
SUBJECT: SHABA INVASION: A SECOND LOOK AT THE ECONOMIC EFFECTS

REF: A) KINSHASA 2515, B) KINSHASA 2160

1. SUMMARY: THE CONTINUATION AND EXPANSION OF THE INCURSION INTO SHABA RAISES THE POSSIBILITY OF A PROLONGED CONFLICT IN WHICH (A) THE INVADERS HOLD SOUTHWESTERN SHABA BUT DO NOT PENETRATE THE COPPER BELT OR (B) THE INVADERS TAKE CONTROL OF THE COPPER BELT BUT DO NOT EXPAND BEYOND THE SHABA REGION. IN THE FIRST INSTANCE THE LOSS OF SOME EXPORT EARNINGS, SLIGHTLY INCREASED IMPORT NEEDS AND THE LOSS OF PRIVATE BANK CREDITS MIGHT INCREASE ZAIRE'S 1977 FINANCIAL GAP FROM ABOUT $160 MILLION TO $340 MILLION. IF NOT BRIDGED, THIS WOULD IMPLY A ZERO REAL GROWTH RATE AND A 2.8 PER CENT FALL IN PER CAPITA INCOME. IT IS CONCEIVABLE THAT THE LOSSES COULD BE RECOUPED BY INCREASED PUBLIC ASSISTANCE AND DEBT RESCHEDULING, BUT WITHOUT HELP FROM PRIVATE BANKERS THE GAP WOULD REMAIN AROUND
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 KINSHA 03003 01 OF 02 011456Z

$160 MILLION. THIS WOULD IMPLY A 1.5 PER CENT GROWTH RATE AND A 1.3 PER CENT FALL IN PER CAPITA INCOME.

2. IN THE SECOND INSTANCE, THE ECONOMIC DETERIORATION WOULD BE MORE DRAMATIC BECAUSE OF GREATLY DECREASED EXPORT EARNINGS AND LOSS OF PRIVATE BANK CREDITS. THE GAP MIGHT RISE TO $415 MILLION WHICH, IF NOT FINANCED, WOULD IMPLY A 1.3 PER CENT FALL IN GNP

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

AND OVER A FOUR PER CENT FALL IN PER CAPITA INCOME. INCREASED HELP FROM IMF, USG AND OTHER LENDERS AS WELL AS ADDITIONAL PUBLIC DEBT RESCHEDULING COULD HELP REDUCE THIS GAP. ON BALANCE, HOWEVER, EVEN WITH THIS GREATLY INCREASED ASSISTANCE, THE GOZ WOULD BE LEFT WITH A FINANCIAL GAP OF AROUND $235 MILLION. THIS MIGHT MEAN A ONE PER CENT REAL GROWTH RATE AND A 1.8 PER CENT DECLINE IN REAL PER CAPITA INCOME. END SUMMARY.

3. ECONOMIC EFFECTS OF PROLONGED CONFLICT: THE OONTINUATION AND EXPANSION OF THE INCURSION INTO SHABA RAISES THE POSSIBILITY OF A PROTRACTED CONFLICT IN WHICH THE INVADING FORCES HOLD AND ADMINISTER THE SOUTHWESTERN CORNER OF ZAIRE WHILE THE GOZ RETAINS CONTROL OVER KOLWEZI AND THE REST OF THE SHABA COPPER BELT. SHOULD THIS OCCUR, THE FINANCIAL ASSISTANCE REQUIREMENTS OF THE GOZ WOULD EXPAND. WE HAVE EARLIER PROJECTED (REF B) THAT TO ATTAIN A FOUR PER CENT LEVEL OF REAL ECONOMIC GROWTH IN 1977 THE GOZ WOULD HAVE TO BRIDGE A NET FINANCIAL GAP OF ABOUT $156 MILLION. THIS IS THE GAP THAT WOULD BE LEFT EVEN AFTER THE PROVISION OF NEW PRIVATE BANK CREDITS OF $125 MILLION, IMF RE-SOURCES OF $100 MILLION AND NEW PUBLIC CREDITS OF A LITTLE OVER $100 MILLION IN 1977.

4. CITIBANK DOES NOT INTEND TO RAISE NEW BANK CREDITS SO LONG AS THE SHABA INCURSION CONTINUES. THIS MEANS THE LOSS OF $125 MIL-LION IN NEW PRIVATE CREDITS (IN REF B WE ASSUMED ONLY $125 MILLION WOULD BE AVAILABLE IN 1977) AND RAISES THE FINANCIAL GAP TO $281 MILLION. FURTHERMORE, THE CONTINUATION OF THE CON-FLICT WOULD CUT BACK COPPER BELT MINERAL PRODUCTION EVEN IF COPPER BELT REMAINS IN GOZ HANDS. WE WOULD ESTIMATE--AND HERE WE CONFIDENTIAL

CONFIDENTIAL

PAGE 03 KINSHA 03003 01 OF 02 011456Z

ARE EXTRAPOLATING HEROICALLY FROM THE PRODUCTION PROBLEMS OF THE LAST FEW YEARS--THAT MILITARY USE OF SCARCE TRUCKS, RAIL CARS AND FUEL SUPPLIES WOULD CUT COPPER BELT EXPORTS FIVE PER CENT BELOW OUR PREVIOUS ESTIMATES. THIS WOULD MEAN A DECREASE OF ABOUT $50 MILLION IN THE OVERALL LEVEL OF EXPORT EARNINGS. IN ADDITION, WE EXPECT THAT THE CONTINUATION OF THE CONFLICT WOULD INCREASE IMPORT REQUIREMENTS FOR FOOD AND FUEL BY AT LEAST $10 MILLION. ON BALANCE, THE FINANCIAL GAP COULD INCREASE FROM $156 MILLION TO AROUND $340 MILLION AS NOTED BELOW:

FORMER NET FINANCIAL GAP	$156 MILLION
PLUS LOST PRIVATE CREDITS	$125 MILLION
PLUS LOST EXPORT EARNINGS	$ 50 MILLION
PLUS INCREASED IMPORT NEEDS	$ 10 MILLION
EQUALS NEW NET FINANCIAL GAP	$341 MILLION

5. IF NOT BRIDGED, SUCH A FINANCIAL GAP WOULD NECESSITATE AN EQUIVALENT CUT IN IMPORTS. WE ESTIMATE THAT THIS WOULD CUT REAL ECONOMIC GROWTH TO ZERO. GIVEN ZAIRE'S 2.8 PER CENT POPULATION

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

GROWTH RATE, THIS WOULD IMPLY A 2.8 PER CENT CUT IN REAL PER CAPITA INCOME.

6. IT IS POSSIBLE THAT PART OF THIS GAP COULD BE BRIDGED BY ADDITIONAL ASSISTANCE AND DEBT RESCHEDULING. TO TAKE A HYPOTHETICAL EXAMPLE, ONE MIGHT ENVISION INCREASED BALANCE OF PAYMENTS RELIEF OF $180 MILLION FROM INCREASED AID OF ABOUT $90 MILLION FROM INTERNATIONAL AGENCIES AND BILATERAL DONORS AND INCREASED DEBT RESCHEDULING OF ABOUT $90 MILLION. (NOTE: AS PRESENTLY ENVISIONED, THE TERMS APPLYING TO SECOND SEMESTER 1976 PARIS CLUB MATURITIES WILL BE EXTENDED TO COVER 1977 MATURITIES AS WELL. IF THESE TERMS WERE MODIFIED TO RESCHEDULE ALL INTEREST AND PRINCIPAL PAYMENTS DUE ON PARIS CLUB LOANS IN 1977, THE ESTIMATED ADDITIONAL DEBT RELIEF WOULD BE $90 MILLION.) THIS INCREASED ASSISTANCE WOULD REDUCE THE GAP TO $160 MILLION.

7. THE $160 MILLION GAP REMAINING AFTER THIS INCREASED ASSIST-
CONFIDENTIAL

CONFIDENTIAL

PAGE 04 KINSHA 03003 01 OF 02 011456Z

ANCE COULD, OF COURSE, BE ELIMINATED SIMPLY BY CUTTING BACK IMPORTS. TO DO SO WOULD CAUSE GROWTH TO FALL TO AROUND 1.5 PER CENT, WHICH IMPLIES 1.3 PER CENT FALL IN PER CAPITA INCOME, ASSUMING A 2.8 PER CENT GROWTH IN POPULATION.

CONFIDENTIAL

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CONFIDENTIAL

PAGE 01 KINSHA 03003 02 OF 02 011740Z
ACTION AF-08

INFO OCT-01 EUR-12 ISO-00 CIAE-00 DODE-00 PM-04 H-01
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P R 011230Z APR 77
FM AMEMBASSY KINSHASA
TO SECSTATE WASHDC PRIORITY 2722
INFO AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY LUSAKA
AMEMBASSY PARIS
AMEMBASSY PRETORIA

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

8. ECONOMIC EFFECTS OF THE FALL OF SHABA: THE PROGRESS THE INVADERS HAVE MADE TOWARD KOLWEZI RAISES THE POSSIBILITY OF MUCH MORE SERIOUS CONSEQUENCES--THE LOSS OF THE COPPER BELT TO THE GOZ. IF SUSTAINED FOR ANY APPRECIABLE LENGTH OF TIME, SUCH AN OUTCOME WOULD SIGNIFICANTLY INCREASE THE ECONOMIC PROBLEMS OF THE GOZ. THE KINSHASA GOVERNMENT WOULD BE DENIED THE PRESENT INCOME OF THE COPPER BELT AND--PERHAPS MORE IMPORTANTLY--THE INCREASED INCOME CAPABILITY TO BE GAINED BY THE GECAMINES EXPANSION PROGRAM. THE GOZ HAS COUNTED ON INCREASED GECAMINES PRODUCTION, FORMERLY EXPECTED TO COME ON STREAM IN 1979, TO PROVIDE THE INCREASED EARNINGS NEEDED TO PAY OFF ZAIRE'S EXTERNAL DEBT. FURTHERMORE, LOSS OF SHABA WOULD CAUSE THE SUSPENSION OF THE LARGELY U.S. FINANCED INGA-SHABA TRANSMISSION LINE, A PROJECT WHICH HAS GENERATED A LARGE SHARE OF ZAIRE'S EXTERNAL DEBT. U.S. FINANCIAL INSTITUTIONS WITH A SUBSTANTIAL STAKE IN THIS PROJECT INCLUDE EXIM, WITH LOANS AND GUARANTEES OF $318 MILLION, AND A CONSORTIUM LED BY CITIBANK, WITH LOANS OF $218 MILLION, OF WHICH $181 MILLION ARE GUARANTEED BY EXIM.

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9. ON AN OVERALL BALANCE OF PAYMENTS BASIS, ECONOMIC PROBLEMS OF THE KINSHASA GOVERNMENT WOULD FORMIDABLE. WE HAVE EARLIER ESTIMATED A GROSS FINANCIAL GAP (BEFORE FINANCING) OF $489 MILLION FOR 1977 AND A NET FINANCIAL GAP (AFTER FINANCING) OF $156 MILLION, AGAIN ASSUMING IMPORTS AT A LEVEL TO ASSURE FOUR PER CENT GROWTH. IF SHABA REVENUES WERE LOST TO ZAIRE, THIS WOULD AMOUNT TO A GROSS LOSS OF $900 MILLION A YEAR BASED ON CURRENT PRICES AND PRODUCTION LEVELS. THE NET LOSS, HOWEVER, WOULD BE SIGNIFICANTLY LESS. THE GOZ ROUTINELY RETURNS 45 PER CENT OF THESE REVENUES TO GECAMINES FOR ITS FOREIGN EXCHANGE REQUIREMENTS. PERHAPS ANOTHER 20 PER CENT MAY GO FOR SERVICE EXPENDITURES CONNECTED WITH THE TRANSPORT, REFINING AND MARKETING OF GECAMINES EXPORTS. WE, THEREFORE, ESTIMATE THAT THE NET LOSS TO THE ZAIRIAN ECONOMY WOULD BE ON THE ORDER OF $325 MILLION. IN ADDITION, THE FALL OF SHABA WOULD RELIEVE THE BANK OF ZAIRE OF THE NEED TO PROVIDE FOREIGN EXCHANGE FOR SHABA'S FUEL, FOOD AND OTHER NON-GECAMINES IMPORTS. WE ESTIMATE THIS COULD MEAN A FOREIGN EXCHANGE SAVINGS OF AROUND $150 MILLION. THUS THE GROSS FINANCIAL GAP FOR 1977 MIGHT BE ADJUSTED AS FOLLOWS:

ORIGINAL GROSS FINANCIAL GAP	$489 MILLION
PLUS DECREASE IN NET EXPORT EARNINGS	$325 MILLION
MINUS DECREASE IN NET EXPORT EARNINGS	$150 MILLION
EQUALS REVISED GROSS FINANCIAL GAP	$664 MILLION

10. FACED WITH LOSS OF COPPER BELT EXPORT EARNINGS, THE GOZ

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

MIGHT SEEK INCREASED IMF HELP FROM THE COMPENSATORY FINANCING PROGRAM. THIS COULD CONCEIVABLY INCREASE IMF ASSISTANCE FROM $100 MILLION TO AROUND $150 MILLION. ZAIRE, HOWEVER, WOULD ALSMOST CERTAINLY LOSE ANY CHANCE OF NEW CREDITS FROM PRIVATE BANKS. EVEN WITH $100 MILLION IN PUBLIC SHORT-TERM CREDITS, THE GOZ WOULD FACE A NET FINANCIAL GAP ON THE ORDER OF $415 MILLION.

11. IF NOT BRIDGED, THIS WOULD IMPLY A $415 MILLION CUT IN IMPORTS. WE ESTIMATE THAT THIS WOULD MEAN A 1.3 PER CENT DECLINE IN REAL GNP AND A DECLINE OF OVER FOUR PER CENT IN REAL PER
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CONFIDENTIAL

PAGE 03 KINSHA 03003 02 OF 02 011740Z

CAPITA INCOME. AS SUMMARIZED IN PARA SIX ABOVE, IT MIGHT BE POSSIBLE TO RAISE A FURTHER $180 MILLION IN BALANCE OF PAYMENTS RELIEF FOR ZAIRE ($90 MILLION
IN INCREASED AID, $90 MILLION IN
ADDITIONAL PUBLIC RESCHEDULING). THIS WOULD REDUCE THE FINANCIAL GAP TO $235 MILLION.FURTHER RELIEF WOULD PRESUMABLY COME FROM EITHER A FORMAL OR A DE FACTO MORATORIUM ON THE PAYMENT OF PRIVATE BANK DEBT. AT A MINIMUM, THE GOZ SOULD PROBABLY SUSPEND PAYMENTS ON ANY PRIVATE BANK DEBTS ASSOCIATED WITH SHABA ENTER-PRISE OR THE INGA-SHABA TRANSMISSION LINE.

12. AFTER SUCH ASSISTANCE, THE REMAINING FINANCIAL GAP COULD BE ELIMINATED BY CUTTING IMPORTS BY $235 MILLION. THIS WOULD PROBABLY REDUCE THE REAL GROWTH RATE TO ABOUT ONE PER CENT (FOR THE REGION UNDER GOZ CONTROL) WHICH WOULD IN TURN IMPLY A FALL IN REAL PER CAPITA INCOME OF ABOUT 1.8 PER CENT.

13 WE WISH TO EMPHASIZE THAT EVEN UNDER THE WORST POSSIBLE OUTCOME--THE FALL OF SHABA--THE ECONOMIC CONSEQUENCES OF THE CONFLICT NEED NOT BE DEVASTATING IN THE SHORT RUN, PROVIDED, OF COURSE, THAT POLITICAL ORDER IS MAINTAINED IN THE REST OF THE COUNTRY AND APPROPRIATE ECONOMIC POLICIES ARE VIGOROUSLY PURSUED. IN THE LONGER RUN, A CONTINUED SEPARATION OF SHABA FROM THE REST OF ZAIRE WOULD FORCE A FUNDAMENTAL RESTRUCTURING OF THE ZAIRIAN ECONOMY.

14. THE FOREGOING REPRESENTS OUR BEST ESTIMATE OF THE ECONOMIC CONSEQUENCES OF CONTINUED CONFLICT IN SHABA. WE WILL BE SUBMIT-TING RECOMMENDATIONS ONCE WE HAVE A CLEARER IDEA HOW THE SITU-ATION IS DEVELOPING.
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Margaret P. Grafeld
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EO Systematic Review
22 May 2009
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